Prudential 2017 Half Year Results

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Half Year 2017 Overview

Mike Wells

Group Chief Executive, Prudential

Welcome

Good morning everybody, and thank you for joining us. I appreciate this time of year the pretty much full house. I know there are other places you could be, probably warmer and drier than we have had this week. Thank you. Starting out, I am going to introduce some folks to you. Mark FitzPatrick is joining us now as our Finance Director, and I think a number of you know Mark from his previous career. We are very pleased to have him. There are some other familiar faces. You will recognise Nic now as our Head of PCA. You will find a completely different attitude. He has things to say about Group home office he never said when he was there. Some very familiar faces in the room and the team continues to grow in capability and talent. Certainly, we see the leverage of working together working very well, and I hope you see that through the results in the Q&A and some of the presentations today.

I am going to do a quick overview of some of the strategic issues and highlights. Mark is going to walk you through the financials. We will do the normal Q&A we do when we bring all of the heads of the businesses, CRO and other folks up and let you ask questions directly of the participants. The format is well rehearsed, so I will get right into it.

Group

Headline results

Strong, broad numbers hopefully, with the effectiveness of our IR team; there are no material surprises in here for you. We think they are good clean numbers. Extremely pleased with how broad the base of the performance is. Pretty much every business we have is doing well right now and through a variety of climates and challenges they are dealing with. Obviously, very happy with the results. Asia, eight of the 11 markets up double digits in both IFRS and NBP is a great outcome. The US and our UK-based businesses as well, having a tremendous first half of the year.

I think the quality of the growth is what I would ask you to consider as we go through the presentation today. We continue to work on this. We think the health and protection focus in Asia, the long-term relationship focus of our clients globally so that income is compounding and recurring, is a key theme for us. The capital strength that then comes through. Even on the Solvency II basis we are north of 200%, and you see the absolute growth of capital and our ability to generate capital organically is demonstrated in the numbers.

We hit our 2017 free surplus generation target. We are through it at £11.1 billion. It was £10 billion for those of you who have not paid attention to that. It was due at the end of the year so we hit that a little early and we feel like we are doing pretty well towards the others. I will come back to that in a second.

Geographic footprint aligned to significant demand

I am not going to spend a lot of time on our strategy today on a global perspective. You know what our view is. We think we are in markets with multiple growth curves in our favour: demographic, social issues, wealth, population, GDP, demand, etc. Those are playing through in the results our teams are producing for you across the globe. In the US, the team continues to effectively navigate the regulatory climate. There was more news again today. I will let Barry address that in the Q&A, but again the DOL changes for us are directionally a headwind and push us into larger asset pools. You continue to see Jackson succeed in that space.

I will spend a little time today on what we are doing in the UK. This raised a few questions this morning, so I am going to assure you that you will leave today understanding what we are trying to do here. This is very much about unlocking additional value and increasing the sales of the capital-light products we have in that space and the number of relationships available to us in the market and increasing the capabilities of these firms. Again, I will come back to that in time.

2017 Asia objectives on track, Group objective achieved

Let us jump to Asia. This epitomises what we are trying to deliver, growth at scale. I went back and looked at some notes from a couple of years into the role and some of the early meetings with you all out in the room individually and collectively. One of the questions at the time, if you remember, was, can we continue to grow at this size? That was a fair question, it came up a number of times, my first months in the role. What you see is we very much can, and that is across the Group. Quite a bit of our growth now is structural. It comes from a number of things, not just the market demographics but the nature of the relationships we have with clients. The percentage of recurring relationships with clients is where our focus has been in the last few years. That growth has come. I think the quality and breadth of it, we are being more selective in the regions, products, channels we are doing business in, yet we are still getting the absolute growth, and you see the growth of NBP. Very happy, I think; Asia hits these numbers and I think demonstrates what we are trying to do very well. The targets are embedded in this, they are well-rehearsed. Again, I think you can see the performance and how we are doing against those objectives. It speaks for itself, but the compounding effect I think is a key take-away to me in the numbers out of Asia.

Double-digit growth in key metrics

The other, I think, that just two years of much more extensive travel in the region there, and I know a number of you have been over multiple times; some of you are based there now. It is very early days for us in the industry in Asia. I think we are on the front end of the opportunity in most of our markets there, so it is still very much about execution, it is about agility, it is about bandwidth, it is attributed to scalability; can we get that next relationship faster, a better experience for the consumer, more profitable for our shareholder, better value to everybody in the stakeholder base? We continue to focus on that, and you are seeing that, and it varies by market, what that feels like. We have to have local teams in market, again, of a size and scale that we can execute to the subtleties in each distinct market there. Asia is not a country; I have said this a couple of times. There are massive distinctions in markets, even inside of the countries we do business in, and I think, again, you are seeing this executed in a variety of spaces in these markets quite effectively.

Very pleased with the team, but the GDP growth numbers – I think you can look back a few years – are not the driver of our sales. When you are in the risk-off business, which we are, volatility is a bit of a tailwind. Persistency goes up, sale prices extend, but the overall quality of the business improved because people are concerned. The concerns we find in the region tend to be very personal, very much about family changes, very much about the political environment, not necessarily if GDP bounced up or down 100 basis points. It is critical we have a way to access those clients in that same sort of personal interaction. We are doing that, 500,000-plus agents, 10,000-plus branches. We continue to add technology to that, to create unique experiences for them and to service the clients the way they want. That can be a claims payment on a Chinese account, or a deposit in a Weibo or WeChat account, to an agent face-to-face in a cash transaction if that is what the client wants in another market. That flexibility, that agility, I think is key for us to succeed and to continue to succeed at scale, particularly if we decide not to participate in elements of markets.

High-quality growth

What is not here, looking back at that same period of time? We have exited a couple of markets. We have exited a channel. We have exited some products. We are out of the Korean Life, Japanese Life market, we are out of the broker-independent channel in Hong Kong, we are out of Universal Life for the most part, and we are still getting the growth. We are still getting competitive market share, still doing extremely well in the business, without following things that we think are not producing as high value at this point. We have the scale. We talked about the portfolio effect for years up here. One of the advantages of it is, you can choose which markets you participate in, which segments, which channels, that you think provide the greatest value at any given point in time. We have demonstrated we can go in and out of these channels, we have demonstrated clearly we can go in and out of the products, so I hope it is not viewed as a capability question; it is very much a choice question for us, and we think the best recurring earnings come from the channels and markets we are in.

Clearly, the Health and Protection focus creates the highest level of recurring earnings, which is one of our key ambitions, and we like the growth in those. Hong Kong, again, is a good demonstration of this, as we backed off the independent agency channel. The team there still produced; our Agency team up 31%, Banca up 22%. Health and Protection, great growth across the region: NBP up 22%. We are very happy with how they are doing, given what we are asking them not to do, if you think of it in those terms. We think on a relative basis, an absolute basis, this is a great performance.

Long-term performance track record

Long term is the key, so our ability to build recurring revenue for you, to build relationships that are of value to the consumer and produce reasonable value to our shareholders, is absolutely the key. Asia is on its third set of objectives of demonstrating this. You will see we are in pretty good shape to get to the 2017 year-end, so we are feeling pretty good about those at this point. I think directionally, we are unlikely to give you another set of guidelines for Asia, because we think at this point, there are enough facts and enough transparency, and the IR team – I saw was rated by institutional investor – as one of the best. The level of transparency I think we have with you gives you enough metrics where you can see how we are doing here, and the recurring revenue bases alone give you the guidelines on predictable earnings out of business units. Just to manage expectations there, we think the numbers now stand on their own. Proof of concept, I think, has been met.

US: Relative Outperformance

Switching to the US, interesting market now. Again, demand still there. Clarity around DOL is still a challenge if you are a compliance officer at one of the major broker-dealers. That is really where it is probably felt the most. Again, I will let Barry elaborate on last night's movements, but a delay in implementation to 2019. We are doing very well in the interim. There are multiple work streams going on here. Jackson captured 100% of the net flows for the industry, again, in the first half of the year. There is no reduction in demand for a consumer wanting some surety in what their retirement assets will do. If you look at the appreciation in the fund, you can see, again, the product is performing well for consumers. That performs well then for our shareholders. The capabilities of Jackson, as we enter the RIA-type platforms, it is early, early days; it is weeks. They are continuing to add new producers who have never done business with us before. On one of the early RIA products, 25% basically of the producers never wrote a Jackson product before. That goes to wholesaling, that goes to product design, that goes to trust and the brand inside of the industry.

We see the direction here in the market is additive. We go from a market of a couple of trillion of definable assets, as we have said to you now, to 17, and we think there is tremendous upside as the regulatory clarity lifts. There is no change in demand when you talk to advisors. I was just back in New York and had a chance to see a couple of people there who provide retail advice, and you will not be surprised that consumers are concerned about market volatility and saving for retirement, and low interest rates. It is a very well-rehearsed set of retail consumer concerns, and Jackson's products address that extremely well. They are building for the future, investing along with key partners in what the next generation of fee-based products will look like. That is key work, and that has a quality lens on it that was not historically there, given the quality of Jackson's product surpasses the balance of the industry. All of these pressures come towards us and create tailwinds, so a very good time for the US business, although a very busy one, with no shortage of challenges.

UK

Market context

Then on the UK market, we are combining M&G and our UK business, and we have got a lot of questions on this already this morning. Let me just give you the industrial rationale why we would do this. There is a variety of things we see in the marketplace, and, depending on which companies you own in your portfolios, or follow, you are seeing around us. There is a consolidation of fund managers, there is a blurring of the roles between the insurers and the asset-management industry, and the UK-based; again, these firms service clients internationally, not just in the UK, but UK-based providers. There are questions about market outlook, and we think we have a unique set of skills to unlock even more value in this market, so we are going to combine the two firms. Let me be clear on a couple of things: this is a capital-light, from-strength-oriented model, where we see growing into a huge market opportunity, and I am going to jump forward a couple, because I think you know M&G well, you know Pru well.

Attractive market dynamics

The quick summary on these: M&G's performance at £7 billion-plus of net inflows, £5.5 billion of that being retail, gives you an idea of the breadth of the performance and the breadth of the portfolios we can bring to clients. Again, most of these non-correlated with equity market, and that is what the consumer is buying. You have the PruFund product up 29% in the first half of the year, and let me jump to where I think that is coming from. We see two addressable markets here. One we are playing in actively, with M&G; the other we are playing in passively, I would say by default, with Pru UK, and we want to step up our active participation in that.

On the left, I am assuming pretty much everybody in the room is familiar with the size of the UK asset management business, and the firm is based here, so I am not going to spend a lot of time on the scale of the opportunity, but it is the second-largest asset management market in the world: a well-established fact. The products and portfolios we have, again, are in the total return value, high-dividend stock, total return bond fund, but more of the non-correlated. I get the question: what is the impact of passives? Our average investor is not looking for highly correlated market volatility, market returns. There is a place for passives, but we are big believers in active management, and we think the key is delivering risk-adjusted, non-correlated returns to consumers and institutions. We are doing that now, and we think we can continue to do that. That is, if you will, the risk-accepting side of this chart, where a consumer or institution, we like it. We are not going to do anything to disrupt that. Any client of M&G's that is already doing business with them: no change in fund managers, no change in service personnel. We are simply going to up some of the quality of services and breadth of product that is available to them, and be able to customise more for them.

On the right-hand side is where we think the flaw is, if you will, in the market, socially, product-wise, industry-wise. The cash element of the ISA market, three quarters of the ISA fund still going to cash. There is no way a UK saver can retire on the yield on cash, to state the incredibly obvious: they cannot even keep up with inflation. These pools of fund, £255 billion-plus, deserve a home, but these clients – and we get them, we get them through the PruFund and other products – are incredibly risk-averse. They are not interested in volatility, and they are worried about preservation of capital. This is the same comment I have heard in New York, I have heard for most of my career: 'I do not have time to earn it again.' It is a client who is closer to retirement, and they are very, very concerned. A shocking number to me, when we were researching this: the bottom figure. That £46 billion is clients chasing basis points. If you want a measurement of, do they understand their need to earn more, do they understand the yield they are getting is not successful, I think this is a really interesting barometer. This is clients moving from cash to cash. Think of the yields available in the market: they are literally chasing individual or single-digit basis points. The need is there, the consumer knows they have the need.

There is a clear opportunity here for us to capture more of this market, and I think as an industry, to do a better job in this market, to get these investors into capital markets, into real property, into real investments. We know we are doing that, we are backing into that a bit with the range of products and the success we are having with PruFund. Where are we going with this? PruFund is a good example. It is a collaboration between our two UK businesses. It has industry-leading performance. It has a very, very unique capability to smooth for clients, and it appeals to clients on the right side of that graph.

M&G Prudential

Strong operating platform

I said we are doing this from a position of strength. I will spend just a minute on this one. Take a look at the operating performance of these businesses. Net flows are excellent. Performance returns are excellent. We think we have every tool we need to address both those markets effectively, so no M&A on the horizon, nothing we need to buy, nothing we need to do. We just need to take the investments we are putting in these firms, in technology, in back office, in digital and service capability, and lever it more. When we invest over a three-to-four-year period of time in what we expect the firm to be able to do, we do not want to invest twice at the intersect between insurance and asset management. We want that back; that gives us a higher return on the invested capital. Again, back to the pace at which the capital is returned to us, all those metrics improve. This is about efficiency, but it is also about meeting a structural demand, and we think it produces a very capable firm in the process.

Well positioned to unlock opportunity

How capable? Well, here is the breadth, and again, I appreciate for some audiences it would be a complex slide; for this audience, it is a very simple slide. The breadth the customers want, we produce at scale. The range of products that manifests itself in, we produce. The channels that are available to the consumer, we have good positions in. The key here is not to overlap, not to compete with ourselves, not to get in our way, and to think about ways to address each more efficiently, more effectively. Again, we think we can do that. We are not solving a weakness here; this is from strength, and we think we can improve the performance of both firms, and we think we can get more to retail consumers, institutional consumers, in the process. It should produce an at-scale, leading savings and investment provider, with quite a broad range of products, capabilities. Digitally-enabled, capital-light.

Are we going to sell down some of the back book, all of the back book, etc.? The answer is yes, we are going to look at that. Again, let me put this in context. As I have said before, this is a profitable business for us. It is capital-intensive, and it is not one that we are currently writing new business in, nor have any intention to write new business in. We are looking at a couple of different things. How do you de-risk some of the positions? There are internal and external options both on that. There are clearly, from other results presentations, as I understand, a number of players who are interested in participating in some of the financial interests in these relationships. We do not need to create capital, as you see from the 10 points of capital we created in just the first half of the year alone. We do not need to meet any sort of targets domestically; these are highly rated firms. However, if the market pricing produces a total shareholder return that we think is competitive, we are fine with de-risking this portfolio externally or internally, okay?

Leading savings and investment provider

The long-term direction is, this is not a business that we are staying in, so we are going to look at the options there. The total shareholder lens here is important, because these processes take a little bit of time. Let me go back to some of the realities of it. These are liability transfers. There is quite a bit of work in them. We will keep you posted in what we see, but at the end of the day, these are not fast, and we are not solving for some short-term cash solution, so I want to just manage that expectation clearly. There is nothing that we are doing in either of these two businesses that is going to negatively affect our dividend-paying capability or earnings, and we are not looking to materially change that. If we have excess capital, you know we always look at that at dividend time, but the first tiers of this, the early tiers of this, actually unwind efficiencies we have. These are liability transfers, not asset sales. We will do it at whatever level we think is an appropriate price long-term for shareholders; we are not looking to give anything away.

In the meantime, they are profitable though capital-intensive, and the direction of this business is capital-light. I hope that gives enough direction without giving counterparties enough to price from. There is a little bit of balance there. There are lots of different ways we can structure things. I am not going to comment on that publicly, because I want to give the teams a chance to look at what the various options are in the marketplace, and again, we will come back to you with that. We recognise that the direction for us in the UK is capital-light, and that includes examining how we manage the existing capital of the business. I committed that to you two years ago, and we have the team in place and we have the resources in place to do that.

Financial Highlights

Mark FitzPatrick

Chief Financial Officer, Prudential

Preamble

Thank you, Mike, and good afternoon to you all. It is a great privilege to be standing here presenting to you on Prudential's financial performance within my first month. Timing has never really been my strong point. My job in preparing for this event has been made considerably easier not only through the strength of the first-half performance, which the CEOs and Nic deserve credit for, but also by the strong reporting processes and the quality of the finance team that Nic has put in place. I look forward to meeting you all over the coming months.

In my presentation today, I will cover four main areas: first, an overview of the key financial highlights; second, discussing each of our main metrics and the drivers of performance in the first half; third, I will provide some very early thoughts on my perspectives of Prudential and its financial attributes; and finally, I will provide some financial commentary on M&G Prudential.

Group HY17 Results

Key financial highlights

I am pleased to report that Prudential has made a good start to the year, with positive underlying momentum across all of our major metrics and a strong performance from each of our main businesses.

Looking at our key operating metrics, IFRS operating profit increased by 5% to £2.358 billion, new business profit was 20% higher at £1.689 billion, and free surplus generation was up 6% to £1.845 billion. We have seen a continuation of positive currency translation effects from sterling weakness, adding roughly eight to 14 points of growth, together with the benefit of higher asset balances from net inflows and favourable market movements. We would expect the forex benefit to moderate over the rest of 2017, assuming currency rates are unchanged.

This performance enabled the businesses to remit £1.23 billion of cash to the centre, it supported an increase in our Group solvency to £12.9 billion and it resulted in an increase in EEV per share of 8% to £15.67 at the period end. The first interim dividend of 14.5 pence per share follows our usual practice of paying one-third of the prior year dividend at the half year, and therefore reflects the 12% growth in 2016.

From looking at our key financial highlights, you can see that the ongoing delivery of both growth and cash, together with a robust balance sheet, remains a highly distinctive feature of Prudential's results. As Mike has just mentioned, the results reinforce the structural growth drivers and the choices about where we play. They demonstrate that Asia continues to underpin our growth and shows that through our disciplined execution the right decisions were taken about how to play, culminating in a strong yet defensive balance sheet that means we are well positioned to deliver long-term value.

Group IFRS Operating Profit

Growth driven by Asia and US fee business

Moving on to the second area of my presentation and commenting on each of our major metrics now and their drivers, I will start with Group IFRS operating profit. Here the overarching message is one of continuity and consistency, continuity of the earnings-enhancing trends you will have seen over many periods before, and consistency with our strategy, which is well known to you. Together this means that we are growing strongly in the areas you would expect us to.

Asia continues to lead, making the largest contribution to the growth in the period, with good progress from both the life business and our asset manager Eastspring. As this performance shows you, Asia remains on track to achieve its IFRS objective by the end of the year.

The US, through its fee-earning variable annuity business, remains a key underpin of the Group result and continues to drive forward momentum.

Although our results benefit from good diversification through a wide range of income sources, our businesses remain focused on improving the quality of growth in their earnings. We continue to do this by targeting income from Health and Protection in the form of insurance margin, and from fees on Savings and Investment business, all of which have increased by 14%. In contrast, spread income has declined, reflecting our ongoing de-emphasis of new business in this segment and the impact of lower earned spreads primarily in the US, as expected.

On the chart on the left, I have analysed the benefit in the prior period from interest earned on an HMRC receipt and the increase in interest costs in the first half of this year following two bonds issues in June and September last year. The other includes the impact of the reduction in spread margins and the ongoing runoff of the REALIC book in the US. If you adjust for the interest cost, the tax and the management actions, you will see that the IFRS growth rate is 9%.

Business Unit IFRS Operating Profit

Positive momentum in underlying drivers of earnings

At a business unit level, there is clear progress in the underlying drivers of our earnings, building on the momentum in the second half of 2016.

In Asia, our life business earnings were up 16%; it continues to benefit from the quality of the in-force portfolio, through the compounding effect of successive new cohorts of recurring income on top of a large, sticky base, and our successful focus on Health and Protection business. With an increase of 18% in IFRS earnings from the Asia in-force book and a 24% increase in insurance income, the growth on these key measures remains strong. The performance is broad-based, with higher contributions to insurance income from ten countries evidencing the earnings power of our portfolio businesses across the region. It is these positive effects reflecting our successful execution that drive earnings progression in Asia today and underpin the outlook for the business over the years to come.

Our asset management business Eastspring has had another good half year. Earnings were roughly up 20%, roughly in line with the 21% increase in average AUM, which has benefited from sustained net inflows and positive markets.

Moving to the US, Jackson's life earnings increased by 7%. Profits from variable annuity business remain the key driver of growth, more than offsetting the impact of the expected decline in spread margins. Our view on spread margins remains that we expect to see a trend towards 150 basis points over the next few years. Jackson continues to outperform its peers in the VA market, while aligning the business for the post-DOL world. The business continues to attract positive net inflows, supporting a growing level of fee-based income through higher separate account values. Separate account assets increased a further 9% in the first six months, which provides good support for earnings prospects in the second half of the year.

In the UK, M&G has seen a good recovery in profits, consistent with the 10% increase in average AUM compared to half year 2016. As M&G's cost base is typically higher in the second half of the year, we expect the cost/income ratio at 53% at the half year stage to move towards 60% at the full year, as we have previously guided.

UK IFRS life profits were roughly in line with last year with core earnings tracking our previous guidance, including a small reduction due to the impact of the prior year longevity insurance. We continue to benefit from high quality, dependable income from our in-force annuity book and the consistency of contributions from our with-profits portfolio. Our UK management team has taken proactive actions in the first half, mainly relating to capital optimisation, although we expect profits from this source to be reduced in the balance of the year. Following our withdrawal from selling shareholder-backed annuities, the contribution from new business in this segment is now minimal.

Across each of our businesses we continue to drive forward the metrics that build the foundations for sustainable, profitable growth.

Group New Business Profit

Strong new business growth in both life and asset management

In the first half, we have delivered a standout new business performance across each of our businesses. Although this is only one period, it demonstrates the combined power of our growth engines when we are all moving together. In recent periods, when rates were declining or at lower levels than they are today, we were able to continue to grow new business, evidencing the many levers of growth the Group has at its disposal. You can now see that when rates are rising we have retained the significant upside that materialises from these significant movements.

In Asia, we have achieved strong new business across the region, with eight countries producing at least double-digit new business profit growth. Our focus on quality remains. Regular premium continues to account for 94% of sales, and new business profit from Health and Protection increased by 19%. These are characteristics of our growth that you are familiar with, but to achieve this period after period requires strength of execution, making the right decisions on product and channel, for example, when to grow and when to moderate growth. Having the breadth and diversification of the platform we have in Asia allows us this strategic flexibility and makes for a stronger business.

In the US, Jackson has grown sales in a market that continues to see significant disruption from regulatory change. First-half variable annuity sales increased to $9 billion from $8.6 billion, partly reflecting the benefit of Jackson's sales of a surrender offer made by a competitor in the period. The strong increase in new business profit – up 23% – reflects improvements in VA mix and also the positive impact of upward movement in interest rates compared to a year ago when ten-year treasury yields were 82 basis points lower. We took advantage of market conditions to write $2.6 billion of institutional business in the first half, but would expect lower levels of sales in this line over the remainder of the year.

The UK life operations continue to generate high levels of new business growth driven by its position in the retirement segment and the attraction for customers and advisors to the PruFund's smoothed, multi-asset returns. Following another strong period of growth, PruFund assets now stand at £30 billion, up from £16.5 billion just 18 months ago.

In asset management, both M&G and Eastspring have seen excellent flows, with M&G's retail business delivering record net inflows for the first half and institutional also strongly positive. External funds are now at their highest level ever for both M&G and Eastspring, continuing the evolution of these businesses towards higher margin income.

Group Free Surplus Generation

Growing contribution from life in-force and asset management

Free surplus generation was up 6% to £1.845 billion after investment in new business. This is mainly attributed to growth in expected returns from our life in-force businesses which increased 10%, reflecting the increased scale of the portfolios particularly in Asia and in the US. Experience continues to be strongly positive, although it is lower than the prior year partly as a result of lower levels of favourable spread variance in the US.

The contribution from management actions in the UK is largely unchanged at £193 million compared to £190 million in the half year 2016. Consistent with the recovery in M&G profits in the half year and the growth in Eastspring earnings, our asset management businesses have also added to growth in this metric, up 12%.

Our disciplined approach to capital allocation means that we invest free surplus in new business, with strong returns and fast payback periods. I have included in the appendix, slide 37, the historical data that evidences this approach in action, where new business profit is three times the free surplus we invested in the period. This is a very powerful dynamic and underlines free surplus generation across the Group.

Asia continues to be the primary destination for investment of free surplus in new business growth, reflecting the strength of the opportunities available in the region. To give some context to the scale and relative returns achieved, over the past five and a half years we have invested two billion of free surplus in Asia and, in return, have secured new business profit totalling £7.8 billion. In the UK, strain has come down by a quarter, reflecting the lower levels of annuity new business.

Group Cash

Growing cash flows to Group

The flow of free surplus generation has increased the stock of free surplus to just under £7 billion while absorbing currency effects and enabling a higher level of remittances to the centre. Total remittances of £1.23 billion are up 10% overall, with cash from Asia up strongly, reflecting business growth and positive currency effects. Jackson, which typically pays its full-year dividend at the half-year stage, remitted cash of $600 million, up 9% on the 2016 total for the full year. M&G and UK have also delivered a higher combined cash remittance, totalling 390 million.

Equity Shareholders' Funds

Operating profit remains key driver of growth

Organic operating earnings continue to drive forward shareholders' funds and absorb volatility from currency and market movements. In the IFRS table, the negative investment variance of £0.3 billion includes mark to market effects on Jackson's equity derivative portfolio, which are consistent with the strong gains in US equity markets over the period. Higher equity markets are positive for the long-term economics of Jackson's VA portfolio and the business remains committed to hedging on an economic basis, an approach which remains effective.

Overall, on an IFRS basis, market effects were broadly neutral and currency impacts relatively modest, with operating earnings in the first half covering both these and the second interim dividend from 2016. The movements were similar in relative scale and driver on an EEV basis, with operating earnings again dominating.

Solvency II

Strong solvency capital position

As you know, Solvency II is an imperfect fit for our business given our footprint is predominantly outside the EU. Despite this, our Solvency II capital position has improved. The Group shareholder surplus increased to £12.9 billion from £12.5 billion at the start of this year, equivalent to a cover ratio of 202%.

As I described on the shareholders' funds slide, the generation of capital from organic operating experience is *the* dominant factor in the movement over the period, and is consistent with our previous guidance of around 20 points of underlying capital generation per annum. This more than offsets negative currency effects in the first six months of the year and the payment of the 2016 second interim dividend. In the context of operating capital generation, the additional £0.2 billion from management actions is relatively small.

Non-operating and market effects were neutral overall in the first half of 2017, as the benefit of strong equity market growth was offset by the impact of falling yields in Asia and the US and negative marks on equity derivatives held by Jackson to protect against downside stocks. Our Solvency II position remains resilient to adverse market effects, which you can see from our published sensitivities.

Balance Sheet

Well capitalised and defensively positioned

We remain well capitalised at both the local level in each of our businesses and at the Group, as defined by Solvency II. We derive strength and sources of liquidity with central cash holdings of £2.7 billion and readily available access to further external sources of credit. Our assets continue to be conservatively managed, with a focus on quality. This is reflected in the 97% weighting of sovereign and investment-grade credit, with zero defaults and minimum levels of impairment in the period. The overall scale and quality of our balance sheet continues to underpin our strategy, providing financial security and flexibility through the cycle.

HY17 Results

Summary

In summarising the first-half performance, we have continued to grow the business on all metrics while driving improvements in the earnings profile of the Group. Asia remains central to our growth prospects and we see progress across all our main businesses. On all bases, operating capital generation is the fundamental source of our balance sheet strength and resilience. Taken together, this underpins the positive financial prospects of the Group.

Financial Profile

Scale, growth and resilience

For the third part of my presentation, I wanted to share some of my very early thoughts – bearing in mind less than a month – about Prudential and some of its financial attributes. In considering the role in coming in, I looked at what I would ideally like to see in a company that would give me confidence and optimism in its financial outlook. For me, this can be distilled into three main areas: it is around scale, growth and resilience, but none of these is sufficient when considered in isolation. It is the combination of these that creates a powerful dynamic and optionality. There is no point in having scale if you are not going to use it to good effect, and scale should provide opportunity for investment and growth. Similarly, top line growth in insurance is easily achieved. To drive growth in areas that improve the quality and resilience of earnings through a capital-light platform requires discipline, a conservative balance sheet and broad diversification and this does not happen by chance. I am able to see now at first-hand that these attributes are the outcome of having made the right strategic decisions, many years of execution and ultimately driving superior outcomes for our customers. We see the benefits of these continuing to play out in today's results.

M&G Prudential

Financial profile

To finish my presentation, I want to add some financial commentary around today's announcement that we are going to combine M&G and our UK insurance business. As Mike has already covered, we will discuss this in more detail in November. The integration of these operations and the investment we are making will lead to new revenue opportunities and a leaner, more financially flexible organisation, with an improved ability to respond to evolving customer needs. It will also accelerate our shift towards a higher quality earnings stream focused on growth from income, from fee-earning assets and with-profits business.

While these are attributes we expect to emerge and sustain more fully in the combined entity, it is not to say that they do not already exist to a significant degree in the businesses as they operate today. We will leverage those existing strengths and capabilities, but we will also invest to position the business for the future, the cost of which will be shared between the with-profits fund and the shareholders.

In addition to anticipated revenue synergies, we expect to deliver shareholder cost savings of £145 million per annum, pre-tax, by 2022, mainly as a result of simplification and legacy infrastructure, systems rationalisation and some reduction in overlap of shared resources. The related shareholder back investment cost of £250 million are being funded internally. This will not affect remittances, as the minimal impact of upfront costs is easily absorbed, but will create long-term value both from savings we have quantified today and from the revenue potential we expect to emerge.

M&G Prudential begins life from a position of individual strength, with both businesses well established, high quality and performing well. In combination, we believe the solo entity will be even stronger.

Concluding Remarks

Mike Wells

Group Chief Executive, Prudential

Group

Long-term track record

Thanks, Mark. I will finish with my favourite slide. We added yet another bar to what is a highly competitive set of results historically and, again, the relationship of these is one of the key measurements. You do see the increase in the new business profit and, as we focus on that, as Mark alluded to, the capital efficiency, the recurring nature of the profits, the quality of what we are distributing comes through and should be a good indicator of future earnings for the Group.

The other thing I want to mention here and what I hope is also obvious is the management bandwidth and its increasing ability to do all of these things concurrently. We have some very interesting and exciting things going on in Asia. We have some very interesting and exciting things going on in the US. We have some very interesting and exciting things going on in our UK-based businesses. As the Group has grown, so has its capability, as a management team, to not only develop internal talent but to attract external talent to the task at hand. In my 21 years, I have never seen more horsepower in the firm and we are more than capable of managing the challenges that are in front of us and unlocking even more value for you.

With that, I will ask some of my colleagues to join us on the stage, and we will take your specific questions about each business unit or whatever you would like to get into until they are finished.

Q&A

John Hocking (Morgan Stanley): I have three questions, please. Starting with the UK business, I can see that both businesses have got some fantastic investment solutions. Being critical, I would argue that if you look at the mousetrap the Group has got in terms of the distribution piece, both in terms of direct intermediary platforms and Group, there has been long-term under-investment there; should we expect the Group to start investing in that distribution capability? You made an interesting comment about not investing twice at the intersection of insurance and asset management and there is a lot of commonality there, so I wondered whether this is the start of some extra capex in the UK business.

Secondly, on the US, I would be interested to get an update from Barry on what happened overnight with the DOL changes and also what the early traction is you are seeing on the fee-based VA product.

Finally, in Asia, specifically looking at the Hong Kong market, there seem to be a lot of moving parts in the Hong Kong market in terms of the mainland capital transfer, product changes, what is going on in the broker channel versus agency, etc. I just wondered if you could give an update on what is happening there and how Pru is competing in that space. Thank you.

John Foley: In the £250 million that we have identified, that includes quite a lot of work on improving the capabilities of our distribution teams and networks. It is not re-engineering any of that stuff, it is about making sure that our colleagues in those activities have the right tools to service the customers in the way the customers want to be serviced, whether that is digital, face to face, over the telephone. This is a changing environment and we need to step up, quite frankly, so that is partly where the investment is going.

The other opportunity is clearly cross-selling between the two distribution networks, so there will be some investment there in cross-training and identifying the opportunities for selling the traditional UK products into Europe and vice versa.

Barry Stowe: What happened yesterday was the Department of Labor filed with the Office of Management Budget its intent to delay the full applicability of the fiduciary rule which was meant to come in on 1st July 2018. Their intent is apparently to delay it until 1st July 2019, so an 18-month delay. Candidly, this is a longer delay than we had anticipated, which is cause for encouragement and here is why: if you listen to the commentary that we have heard recently from both Secretary of Labor Acosta as well as the new Chairman of the SEC, Jay Clayton, both have indicated a desire to harmonise the definition of a fiduciary, what that means for investors, ensure that investors with both qualified and non-qualified assets are getting the same sort of advice from advisors who are performing to the same standard regardless of the type of asset.

One of the problems with the outcome we had with the Obama rule, as conceived, was that it lacked that harmonisation. The SEC, which plays an extremely important role in this space, was, to a degree, locked out of the deliberations around that rule change and so you ended up with a very inharmonious rule. What this will allow is for us to get to the best possible endgame, which is to have a unified approach, unified rule and correct some of the issues that resulted from the lack of the SEC's involvement in the previous rule, principally around enforcement. The Department of Labor went with the trial bar as the enforcement mechanism because they lack, within the Department of Labor, any enforcement capability. The SEC obviously has well-established, highly effective and productive enforcement capabilities, so if you can join the two together, ideally, in our view, have the SEC act as the enforcement mechanism, that ends up being a very positive outcome for the industry but, more importantly, a very positive outcome for consumers as well.

With respect to the fee-based business – and Mike would know this better than I – in a market where change is adopted very slowly it is getting real traction. These products are very new and so the numbers, as we sit here today, are not yet meaningful, but the trajectory of those numbers looks like a moon shot and that is incredibly encouraging. As Mike pointed out on his slide – and this is something that I hope you will ponder – we have talked about the fee-based opportunity not just being a better, more transparent consumer approach but also being an opportunity for us and for the industry to have these products sold by a whole new universe of advisors who operate exclusively on a fee basis and, therefore, have been unwilling to sell guarantee products.

The fact that 25% of the people – in our case, they are selling these products – are completely new to us, come from these RIA or wirehouse fee-based platforms I think is proof of our concept about where these products will go, and is a very encouraging development for us.

Nic Nicandrou: You are right. There are a number of moving parts. I guess our focus in Hong Kong is no different to the approach that we adopt across the region. Really, we are focussed on generation of value and not top-line growth – generation of value measured by reference to NBP and tied to some of the other metrics.

Now, on a headline level, top-line level, yes, our sales were down in Hong Kong 7%. That was largely driven by the conscious decision to de-emphasise Broker. Broker contributed around 20% of sales last year. In Hong Kong, it was down to just over 3% this time round. A number of reasons why we did that: not least, brokers tend to sell predominantly savings-based products, PAR-type products, and predominantly to mainland Chinese customers.

Strategically, we want Hong Kong to do more in the Health and Protection space. Therefore, deemphasising that was consistent with that approach. I guess the decision also had something to do with a risk control angle, given the various SAFE capital control measures. Candidly, we prefer to redirect that and direct our resources to these distribution channels that we control more closely. Ex-Broker, Hong Kong was up 12%. Positive contribution both from agency and from bancassurance, both of them grew. In fact, the number of cases that we have written in Hong Kong was much bigger than the 12% uplift, the high-teens. That was one of the reasons.

The other thing that is happening, as I said a second ago, that more focus on Health and Protection. You see the Health and Protection content of our sales in Hong Kong increasing. This time last year, it was 19%. In the first half of 2017, it was up to 23%. In fact, in the second quarter, it rose to 24%. That was part of the reason why you see a very healthy increase in the margin coming from our Hong Kong business, from 62% a year ago to 77% this year. In fact, in Q2, it was in the 80s. Strong Health and Protection content, which is why the new business profit from agency and bancassurance is rising in the way that was illustrated in the slide earlier.

Lots of moving parts, but kind of net-net, you have Hong Kong rising, increasing its contribution in terms of increasing the new business profit up by 15%, retaining a lot of the business that we have written in the past, which is why the IFRS profitability, which is again driven by Health and Protection increasing by 44%.

In terms of the various developments over the years, really, they have muted but not eliminated the demand that Mainland Chinese customers have in Hong Kong, for all the reasons that we have rehearsed previously. In terms of their restrictions on how they pay for these premiums, all that has happened is that those have migrated into other channels. Therefore, the restrictions that have been imposed are not having an impact on the way people pay. We have said that before. 80% of our customers have local bank accounts. In fact, 70% of our Mainland Chinese customers also have locally issued credit cards. We can see that they have been able to accommodate that change relatively seamlessly.

Oliver Steel (Deutsche Bank): Another couple of questions for Nic. If I look at sales in Asia, I think actually Health and Protection sales are up 19% and I think you said unit-linked were up 18%. Actually, there does not seem to be that much shift in terms of the focus from unit-linked to Health and Protection. Then, when I look at the net flows, unit-linked net flows have almost dropped to zero. That is not quite 1% net inflows, whereas health and protection has improved. I am just wondering, particularly on the unit-linked side, sort of how happy you are that those flows should be sort of dropping to just such low levels. Is that something you are looking to increase again or is that just a function of the change in focus in Hong Kong?

Second question on Asia. Outside Hong Kong, great sales and new business profit increase, but the margin seems to have dropped Ex-China. What is happening there?

Then finally, a little question for Barry. The sales progression you have seen this year in VA, given that you have now a further delay in the DOL implementation, should we just sort of assume that the current trends we have seen in the first half can continue over the second half, over the next 12 months?

Nic Nicandrou: Okay. In terms of the product shift or mix shift that we have seen, you are right. Most of what has happened is we have seen business move out of PAR and to a degree some into unit-linked, although a lot of that is India-driven, and a lot going into H&P. I think, really, what is happening there, an element is more emphasis on H&P across the piece. On our part, this is a conscious strategic pivot. However, the rest is really to do with preferences. Yes, I would like to do more unit-linked business where we can. However, at the end of the day, you have to sell what the consumer wants to buy.

On flows, typically, we have had a very strong increase in equity markets across Asia. You saw that at the back-end of 2016. That also continued into 2017. Typically, what you find when equity markets are performing well is there is an element of profit-taking by our unit-linked customers. That tends to take the form of partial withdrawals. We have seen an increase in those, pretty much as we saw back in 2014. Outside that, flows remain strong. Particularly on the Health and Protection, we are holding on to the business that we are writing. Generally, retention is strong across the portfolio and it will vary country by country. However, the annualised retention rate is in the mid-90s. That is what caused that particular effect.

As for kind of the margin composition, at the half-year, you can ultimately segment this in how ever many ways you want. It is a function of geography. It is a function of distribution channels. It is a function of what products we are selling. We have seen a big uptick in the amount of sales that are coming through bank channels. I think that is a positive. Clearly, the economics there are slightly different to coming through agency and that is what is distorting the outside China, outside Hong Kong position.

However, the very interesting thing on the banca is that a lot of big businesses that are writing a lot of bancassurance-type sales, a lot of that businesses are moving to regular premium business. That is kind of a positive effect. You get some downward drift because it is banca drift, but then some upward drift within banca because a lot of it is moving to regular premium.

There are a number of moving parts. However, at 56%, really, the margin is, across the portfolio, the best that we have posted at a half-year stage. When you take the NBP and you express the strain as a percentage of NBP, again you see that that ratio of 25% and change percent, it is one of the best we have delivered, which is really testament to, A, being focussed on the right products, and having a lot of capital discipline to back that.

Mike Wells: Barry, the sales projection given, you now have an extension on the time period?

Barry Stowe: Yes. For all the reasons I said earlier, Oliver, it is an encouraging sign around this rule. However, it is still a delay and actually, almost two years from now, we will find out exactly what the final rule is and how it will be implemented. There is still some uncertainty in that, and so, that is unhelpful. However, I do think that the distributors of these products will take encouragement from the length of the delay, from the rhetoric coming from both SEC and Department of Labor.

We are hopeful that things will start freeing up. We are hopeful though – I think some of the potential for improvement in sales results over the next couple of years will come from the, hopefully, rapid adoption of the fee-based product, which I have also alluded to earlier. You have some major distributors – Merrill Lynch is an example – who, with the partial applicability that came in on 9th June, they ended all commission sales and focussed entirely on fee. That is incredibly disruptive to their platform, but ultimately will be a positive thing. I would not expect some big spring-back. I think that the trends that you saw in the first half of the year will broadly continue, but, hopefully, with some improvement coming in subsequent quarters.

Mike Wells: Oliver, I think the other dynamic is if your earning distribution or compliance at one of the major firms, this is a longer period for you not to have an answer for your advisors. I think you will see more developed interim positions that emerge and they were thinking there is a few months left. Again, however, it is early days. When we are together again next, when we are together in November, we will give you direct feedback on what we are hearing from all of our key accounts.

Greig Paterson (KBW): Good morning, everyone. Two quick questions. One is I was wondering, were we having some more movement on the CMI tables and moving those and increasing the longevity reinsurance. Is there some kind of restriction there or something that is preventing you doing more movement in that regard?

The second thing is, I know you are talking generically, Health and Protection. I was wondering – it is probably somewhere in your release – what percentage of your total sales now are from Health and Protection? I was wondering what you can move there, how far you can move the dial there? Can we take another ten points on that, or is that unrealistic? Are we hitting some kind of threshold?

The third question, there has been a fair bit of press speculation around breaking up the group. You could comment on that. However, I would also be interested in your thoughts. Are there any structural reasons, maybe the UK or the orphan estate or some insolvency in Asia or whatever, that would prevent, in your mind, a breakup of the group?

Mike Wells: CMI tables, John?

John Foley: We are still using 14, as you know. There is sort of no issue. There is no underlying reason why we are not changing to the updated tables, Greig. We take a long, hard look at this. We have talked about it, on and off, over the years. We have a lot of detail that we review. In part, we use the tables. However, we also do a lot of our own analysis. We do not want that to be going up and down. This may be a trend that is here to stay. We will see. We will be cautious and we will remain cautious on it.

Greig Paterson: Longevity?

John Foley: Much the same, really. It is just the same. It is just the same, but the flip.

Mike Wells: Health and Protection, Nic?

Nic Nicandrou: As a proportion of our sales, it is around 27%. There is a slide somewhere in the appendix that covers that. Greig, I think there is a lot more we can do pretty much across the piece. In some markets – kind of Indonesia – the Health and Protection component of what we sell is around 74% and in other markets, it is less than 10%.

There is a huge Protection gap across Asia. There are a lot of initiatives to effectively get working with regulators, if you like, and then finance ministries to find ways of closing that, including the way we distribute the product, how we effectively tackle those that are outside the banking-type network. There is a massive morbidity-type gap as well. Part of what I want to do, as we move forward, is how do we broaden up our participation into the wider health space. A lot of initiatives that are happening there within the business. There is a lot of ancillary services that we can provide around just purely a critical illness or sort of medical payments.

As to expressing that as a percentage on the total: candidly, it will depend by how fast the rest grows. But in absolute terms, the potential is significant, and that is an area that we will put even more emphasis as we go forward.

Mike Wells: And then switching to your structural question, Greig, there are absolutely synergies within the Group, let us be clear, and they make us efficient and effective. That said, we have always said that optionality is something we can manage, and we do. I think the biggest source of it is excellent performance; there is an element of, if we can stand up here today and show you each of these companies providing industry-leading returns in their segment and things, that gives us the best possible options. The combination clearly has produced a good outcome; the currency diversification clearly has produced a good outcome. We report to you primarily in constant exchange rates, we are not trying to take credit for FX, but you see we pay dividend in pounds and the FX is real.

There is clearly a value to our geographic footprint and diversification risk and political risk, and a variety of other things that come from it, but structurally, to directly answer your question, the interlinkages are valuable but, as we get bigger, manageable.

Arjan Van Veen (UBS): Thank you. Two questions, if I may? Firstly, on M&G, on the institutional side, the first three quarters of last year we had net outflows, inflows in the fourth quarter and then continued strongly this year, and then record retail inflows. Can you give a bit more colour, so where it is coming from? Also, within retail, where there is a margin differential, what is coming in? I think performance is good, as well.

Second question for Nic on Asia. China, again, performing strongly; I think it was up 58%. The second half last year we saw a doubling of the margin from 20 to the 40s, and that has sustained in this half, so just a bit of an update in terms of where it is tracking in terms of Asian cities you are going into, and the trajectory there? Thank you.

Anne Richards: Okay, shall I kick off on M&G? Only I think, starting, perhaps, with the institutional side. Institutional assets, by their nature, tend to be quite lumpy in terms of when they come in and go out. When you roll back 12 months ago, we lost one particularly quite large lump of assets, but actually, the underlying trend in institutional has been quite steadily positive for some time and you can see that over the longer-term numbers, which I think is really encouraging. I think what I would also say, on the institutional side, is our pipeline of awarded or committed but not yet invested remains really robust, which is, again, quite an encouraging lead indicator on that. On that side of things, a mixture; largely real estate infrastructure and fixed income in different varieties, but quite a nice spread on that.

On the retail side, on what we think of as the wholesale side, what has been really encouraging, the biggest driver of that has been the Continental European flows. We have seen a steadying of the UK, which has been a tougher market in the open-ended fund business, but that has steadied now, over the last couple of quarters. Very, very strongly positive flows from the European side, and what has been really encouraging with that is it is across a range of strategies. Our traditional homeland of things like optimal income and there is fixed income strategies, but also really encouraging, we have had some fantastic results in just some of the range of multi-asset products as well, so it is a nice spread. Floating rate product, as well, has been doing really, really well; again, responding to more uncertainty in the bond market. I think net-net it has been the breadth which has been the most encouraging for us as a business overall.

Nic Nicandrou: Well, on China, thank you for the question. I think China is a great story for us, and it is really a story of expanding our footprint and improving the quality of what we are doing. Let me say a little about both. In China, we are now in 15 provinces out of the 31 provinces in the country and 72 cities; that actually gives us access to around 76% of the GDP of the country and around 940 million of population, so a very, very big footprint. We have been growing at a rate of around six tier-one/tier-two cities a year since 2005. We have commenced trading in Anhui province in 2016, and we have received approval, earlier in this year, to open a branch in Sichuan; with 82 million people, it is the fourth-largest province in terms of population.

Today, we are present in all ten of the top ten provinces that have the highest premium income ranking in China. We have a very well-balanced business, unlike a number of our competitors; agency is about 55% of our distribution, bank 35%, and then other means the balance, and well-balanced in terms of product set. Health and Protection is around 35% of the mix, PAR is around 49%, and then with unit-linked and non-PAR for the rest. More importantly, when we are talking about quality, it is the rate at which we are growing the regular premium business, which is up 57% and it is 93% of the APE mix, which is considerably higher than what we are seeing on average in that market, which is in the low 50s.

We are growing our agency force at pace. Recruitment has been stepped up 43%, so we are hiring 2,500 agents per month. The agency force is just over 34,000; it is up nearly a third compared to this time last year, and the total APE that is coming through agencies is rising at 65%, with a very, very strong Health and Protection content. Bancassurance is also growing with discipline. Again, there is a very high content of regular premium business in bancassurance, running at around 83%; it is growing even faster than agency in the first half as we increase, if you like, the number of active outlets that we are using in the country.

It is great progress and we have great prospects, not least when you consider that the CIRC has set a target for the industry, a penetration target of 4%, by 2020. The penetration target today is 2.3%. Now, were we to achieve that, alongside were the sector to achieve that by 2020, this would create a size of a life and savings industry in China that is equivalent to the one that you have in the US today. The prospects are significant, but we need to continue to grow with discipline, with quality. The interesting discovery for me, in the last three weeks, was actually how modern this business is. It has one of the most efficient EPOS systems across our portfolio of businesses; 100% of the business that is written today is effectively e-autoprocessed. It takes 30 minutes to issue a policy in China, which is much faster than in many of our other operations, 69% is auto-underwritten, 50% of our claims are paid on WeChat and 50% of agency queries are dealt with chatbots. A lot of innovation taking place in that particular market, alongside what is happening elsewhere in our businesses.

Andy Hughes (Macquarie): Do you know, after your comment, Mike, about II and targets you are not going to get votes for the Investor Relations team, anymore?

Quick question on the UK, so PruFund is now £30 billion. Can you split that between accrued bonuses at the year end and now, and just to tell us how much is in the earnings from PruFund? Also, on the UK, I can see there is a UDS of £12 billion now, so I was just wondering where the orphan estate is or the actual estate level? Presumably it has grown quite a lot, and maybe make a request on the UK as well. So PruFund is £30 billion; it is bigger than the annuity business and almost as big as unit-linked, but yet it is mixed in with the with-profit business, so it would be quite good to see that separated out in future.

Then on the merger between M&G and UK, are they quite culturally very different businesses, as I can imagine people at M&G probably get paid more money than those in the Pru UK and do very different jobs? From a cultural standpoint, is that going to work? The second point is, are you saying that you can used the M&G brand to sell insurance around Europe; is that one of the ideas that you came up with?

John Foley: Taking the first ones first, I do not have that breakdown, and looking at my colleagues in the room, we will have to come back to you on those stats and the breakout of PruFund.

I guess the question around the merger M&G culture and all of that good stuff, relative the remuneration structures and so on, is something that we will probably talk about in more detail when we do the investor presentations in November. I think both Mike and Mark made the point that we intend to come back to everybody when we do the investor show in November with more detail around what the objectives are, how we intend to do it, who is going to do it, and what some of the digital enablers will be and that sort of stuff. If you do not mind, I will just reserve it for them, rather than doing any sneak previews.

Mike Wells: Andy, I think it is fair to say that we are very clear we do not want to disrupt any relationships that institutional retail clients have with the current we are doing business with, people that run the funds, people that research. This is not a combination of two fund management companies where you have two of everything. We do not have some of the structural challenges. There are different cultures, of course, and part of the success of M&G is respecting the independence of the fund managers. John has been Group Chief Investment Director. He has worked at M&G, he has been on their board; Anne is clearly maintaining her current role and then some.

We are very aware of protecting what got us here with the team we have. Anne met with them all last night after the close of the market and I think no-one wants change, right? Let us start with that. They understand the upside, the access to more assets, better service, better technology. They see the overlap. These are all fund professionals, like yourselves. They know what is going on in the marketplace. I think it would be an own-goal if we messed that up. There is no intent to do that, there is no intent to disrupt any client relationships.

Anne Richards: Mike, if I may, could I just add one very small thing to that?

Mike Wells: Please, Anne.

Anne Richards: The guys and girls have been working together for 18 years, so it is not that this is a bunch of strangers. We have been working on the PruFund – it is a classic example – all this time. I think it is not the same as two external businesses. It really is not.

Andy Hughes: Any idea, roughly, of where the estate is currently? Just to come back on that bit.

Mark FitzPatrick: So, in terms of the estate, £8.6 billion in terms of 30th June, and that is a slight increase of the year-end position of 8.4 billion.

Andy Hughes: Any idea of what is too big?

Mark FitzPatrick: At this stage? No.

Mike Wells: Not today..

Andrew Sinclair (Bank of America Merrill Lynch): I have three questions, as usual. Firstly, on the de-risking of the annuities business, I just wondered if you could give us an update on both the ability and desire of the with-profits fund, maybe, to take a portion of that annuities business.

Secondly, on Indonesia, I just wondered, Nic, if you could give us a quick update on how things are looking there. A fraction up on APE, but just see what the outlook is for the second half and beyond.

Finally, apologies if I missed this earlier, again on Asia on Hong Kong: I just wondered if you could give us a split on mainland China versus domestic Hong Kong business in the period? Thanks.

John Foley: There are obviously a range of internal options that we are looking at with regards to the annuity book. One of them is clearly the with-profit fund. There are, as you would imagine, a number of governance issues around that, so it is something that we are in the process of, but there is nothing to report. Is it an option? It could be. I think that is all I would say on the with-profit fund, Mike.

Nic Nicandrou: Let me just do the Hong Kong one first. In terms of the half-year on half-year, the local business, it was up 13%, and the mainland China business was down 16%. Clearly the broker channel was a big contributor of that. If you exclude broker and you take agency and bancassurance together, the local business was up 22% and the mainland China business was up 7%. Again, there are a number of distortions that are coming through given how significant, if you like, the broker component was.

Now, just to give you an update on Indonesia, really, we continued to focus on quality, building out our distribution reach and maintaining agency discipline, expanding the product proposition and increasing the automation in the business. Just a few points on each. So on the distribution side we continue to recruit at pace. We have recruited, on average, around 6,000 agents every month this year. The size of the agency force is now 270,000, up 14%. So, we are broadening it, and the productivity of the active agents is increasing as well, so that is positive.

In terms of product developments, we have launched a kind of new product in the market at the beginning of the year. It is an as-charged product. The coverage is broader and it allows access to hospitalisation outside Indonesia. What it does do, as people claim against that, we are able to tweak the premium almost real time, so that is an interesting innovation, and that is getting quite a lot of traction. That is around 14% of our sales in the first half of the year.

In terms of automation, it is a bit like I was explaining elsewhere in our businesses. We have accelerated the rate at which we onboard agents. It used to take 50-odd days and that is now down to five, so there is a 90% improvement in the turnaround time. We are improving the speed with which we auto underwrite. That is up to 53% in June this year, compared to in the 40s last year. Policy delivery is not quite at Chinese levels of 30 minutes, but it is down from 17 days to five days, so there is a lot of improvement under the bonnet, if you like.

Now, on sales momentum, which I think was your question, you are right. Our sales were up 1% at the half year. They were 3% up in 2Q, and June was a record June, which was encouraging to see, not least because Ramadan fell in June this year. Looked at sequentially, the sales in the second quarter were up 15% on the sales in the first quarter, and when you drill down and we look at some of the production as we do of the individual GA offices, the really interesting thing is 156 of those are growing in the first half of this year. They produce around 55% of the APE. In full-year 2016, only 39 were growing and they produced 10% of the APE. So, some of the things are working.

Banca is getting traction, up 20%, with double-digit growth in both our main relationships, and Syariah, which is the Takaful business, which is a story that is developing interestingly in Indonesia in the same way as it is developing in Malaysia, is up 10%.

In terms of outlook, as we have said before, we are not managing the business for the short term. Our view on the attractiveness of this market has not changed when you consider that there are only 18 million in force policies in Indonesia at a population of 260 million; really, the opportunities are still there. We have a first-class team and a very first-class CEO in Jens Reisch, and a business footprint that has 339 sales offices in 169 cities. I think we are extremely well positioned for when the uptick comes, and it will.

Nick Holmes (Société Générale): I have a couple of questions on the US, if I may. The first, looking at the longer-term strategic direction of your business, clearly very conspicuous is the wave of IPOs that we have at the moment. Now, I just wondered if you could say anything about whether there might be circumstances in the future that would encourage you to follow suit and refocus the group away from the US?

The second question is a little bit easier to answer perhaps, which is on the products that you are selling in the US at the moment. Wondered if you could explain, I do not quite understand your wish to get away from spread products, but you are selling more wholesale and, unless I am missing something, I think the wholesale is a spread product. The second question, Barry, is the guarantees on the variable annuities; what sort of guarantee does the market require at the moment in order to get the very good sales that you are getting?

Mike Wells: I will address the IPO first and then over to Barry. If you go back to Voya, Nick, we have seen three firms basically try and get rid of GMIB books through structural changes. You have Voya which is ING, Met's book, and now AXA's book coming to market. I have been standing up here a lot of years and we have debated from our podium over theirs the benefits to consumers, the benefits to shareholders, GMIB versus the guarantee withdrawal benefit. I think when you look at the cash that has come out of those businesses and the cash that has comes out of Jackson's earnings, that I think that we have won that argument, candidly. They are in an interesting spot now and you get a positive count.

Given the relative performance of the funds, given the in-the-moneyness, and given the guarantees they have written which are income annuity-based, not withdrawal-based, they are effectively now interest rate plays, not equity plays. They have switched the level of risk from what they had previously to a different dynamic. Now, that may or may not be within their risk appetite. That may be why they are spinning or not spinning. That is for their podium not this one. We have a very profitable business, very well-hedged, producing a lot of cash flow that fits the group's risk parameters. I think our biggest challenge in the US long-term is with any moderate success in the fee-based business, measured in basis points, how do we diversify some of that risk away at some point? What is our own risk appetite for getting regulatory or otherwise, and is there ever a friction point where you need a certain amount of general accounts to offset your VA guarantees, the liquidity we need, etc., for counter-party work?

Those are real issues, but they are quite a ways out on the horizon and there are quite a few parties interested in sharing in that problem if we have that. One of the most interesting things is that firms that want to do that are not interested in hedging it. There are a variety of structures you would get to, but there are quite a few people who would like the fee stream we have off of the consumers we have and their asset allocations, but again, we think it is priced correctly. We think it is hedged heavily, and we do not think that is something we would be willing to give away. That does not mean we would not entertain a conversation with someone about future relationships, if the business got bigger than our risk appetite.

Barry Stowe: It is not that we do not want to write fixed. It is that in this interest rate environment, one of the reasons we are so successful is because of the consumer-centricity of our products. We are obviously and should be extremely uncomfortable putting product on the street that we do not really think does a job for consumers. Mike alluded to how consumers are struggling trying to invest in cash or any interest-sensitive product right now and get a decent return. We are not manufacturing today a particularly competitive product as we cannot see a way to do it that's good for both shareholders and consumers.

We would be very happy to build the general account as Mike said. We can do that in different ways. It would be nice to be growing it a little more organically, perhaps. You referred to the GICs that we had done earlier this year. Those are opportunistic. It is tactical. It is not really strategic, when we have an opportunity to do that. We are fortunate, we have had a couple of good opportunities this year. We did a reasonable amount of that last year. We will continue to do that. What we would like to see is an environment where we could manufacture more general account business, and grow it organically. That would be great.

The question on what guarantee is required in the marketplace in order to drive these great sales we are getting, it is not really any different in terms of the nature of the guarantee or the pricing of the guarantee. In fact, if you looked at the risk intensity of the guarantee we are selling today and the price at which we are selling it, it is probably some of the least risky business we have ever written. We are getting a good price for a reasonable guarantee. What differentiates us massively is the performance of the product from a consumer perspective, and that is driven by investment freedom.

In terms of full investment freedom, we are really the only major competitor in the marketplace today that offers approaching 150 different fund solutions for our consumer. It allows them to choose from any of those funds and wrap the guarantee around it. Most of our competitors are saying, 'We have 150 funds on the platform, but if you want the guarantee, we are going to narrow you down to a dozen vol-control funds which by definition are going to underperform that market.' If you look at the consumer outcome we have been able to produce, we have 15-16 funds on the platform, I think that is about the right number, that over the last three years have produced 7% returns each year for consumers, and those are amongst our most popular funds.

I think we have one competitor that has one such fund. No-one else has any. That's a massive differentiator and the advisors, they get that. They get the consumer-centricity of the problem.

Abid Hussain (Credit Suisse): Three questions, if I can. Firstly, on the UK annuity disposals what criteria would you use in thinking about disposal? Could you dispose the entire annuity book there, and if so, what would you use the proceeds for?

Secondly, on the merger, could you just provide some more colour on the main sources of cost saves and the timeline to deliver there? Separately, are there any capital synergies from the merger?

Finally, on Malaysia could you just comment on the foreign ownership limit there and the plans there?

John Foley: As Mike has explained, we are going through a process of price discovery in terms of the back book. On a spectrum, how much? People have asked will it be all of it? Will it be £5-10 billion, and so on? We are in price discovery, and when you are doing that and you are selling a liability block, you need to be careful about disclosing what your options are, and we have internal options and we think we have external options, and we are going through a price discovery mechanism right now. Now, if that ends up in us doing a transaction, first of all, that takes a while. This is not a five-minute job.

It will have to go through quite a long process and a legal process. It will be done, I suppose given all the questions we have had on the subject, but it is an economic transaction, which means that ideally for our shareholders, we will not be disclosing a lot of our tactics, and what we are trying to do and what the competitive environment would be, what we have set the price against, so what is the internal versus external? I am sure everybody would love to know the answers to those questions. We will not be giving them, because it just gives us competitive disadvantage. If I can leave that question.

In terms of what we will do with proceeds, I will be giving them to Mike.

Mike Wells: If there any proceeds – we are keeping the ifs in front of all this – we would look at it in the context of other capital we create. I think just this year, the level of capital generation the group has now with this level of capital velocity is a key dynamic in that. You know our view on dividends. It is based on earnings and the earnings are growing and we will earn it, stress it and pay it. If we have excess capital and we cannot find something that produces the kind of returns we are getting for you, then we have no issue on distributing it.

What I want to make clear on the earlier points is, firms have done this to create cash to pay dividend. We do not need to do this to create cash to pay dividends, and we are not doing it with that goal in mind. It is more of a cost of capital, make the business more capital light, if in fact, we like the transaction. It is a very clear trade-off of do you like the earnings or do you like the price? We are not there yet, even to comment, but as far as proceeds, we would roll it up into our other capital and look at it in the same context we would any other source.

Nic Nicandrou: On share ownership, I cannot really provide an update at this time. Share ownership is a fact of life in a number of the countries in which we operate in, in Asia. Malaysia specifically, we have a very successful business, long-established business. Our priorities as we move forward from here are unchanged in the sense of focusing on capturing the great growth that is available to us in the market and in creating value for shareholders. Beyond that, really there is nothing to say at this stage.

Mike Wells: You asked actually two questions we did not get to. On a merger, the cost synergies are over a three or four-year period of time and, again, this is much more about revenue synergies and more efficient investment. I think of it in those terms. The cost synergies we try to get as soon as we can, but the end of the day, they are probably in the first three years, the majority, and I think that is the same statement every CEO who has ever talked about cost synergies has ever said. There is an element, we want these numbers to be grounded in good execution, good buy-in, and not disrupt any business relationship we have.

We are not in a hurry to do this. As you see, these businesses are both succeeding right now. We are not looking to disrupt that. This is not a race in any way. As far as the capital synergies: modest. The local rules about insurers, and asset managers and ownership, you will not see a reduction in regulated entities. We have to follow the local rules to the letter, and so M&G generously pays out its earnings and we expect that behaviour to continue. There is not a material capital synergy as much as there is capability synergies.

Lance Burbidge (Autonomous Research): Firstly, Barry, on Jackson, the dividend was pretty high, which must have pleased Mike. Is there anything you can say on the NAIC, and I guess this is an indication that you are not in the slightest bit worried about it. I think you kind of answered this already in terms of the competition on the VA space: are you seeing anyone warming up to actually coming back into the market, other than, I suppose Lincoln have already made some moves? Then a very quick one on Korea, given what is going on could you update on the sale process?

Barry Stowe: Yes, the dividend was large. That is meant to be the full-year dividend. The NAIC, I would not say that we are absolutely worried about it in the slightest because we are staying very closely in touch with the leadership in NAIC with whom we have very good relationships. We are monitoring the situation. I am not sure the story has changed a lot since last time we discussed this, Lance. The work that is being done is happening at very low-level committees. A lot of the actual commissioners do not have a lot of line sight because it is just grunt work right now. We have remained hopeful based upon the conversations we are having at a senior level that this will end up in the right place. Chad is the one that is front and centre monitoring.

Do you want to add any colour to it, Chad?

Chad Myers: Sure. As Barry said, we still have a long ways to go on this. It does look like timelines are extending. At the moment, I think Oliver Wyman has a lot of work they still need to get through. The earliest dates I have heard for whatever comes out of it, is likely to be 2019 or later. That is assuming it sails right through, that it is a reasonable outcome and there is no back and forth once we get out of the junior committees. It is progressing, but again, not a lot of clarity yet in terms of they are still doing a lot of testing on various pieces. We will not know until we know.

Mike Wells: Lance, the work so far has pluses and minuses. Clearly, we would like to influence it to be something that is just more pluses for the industry. It would still be interesting to see if they can get any elements of market consistency into a US regulatory framework. I would say I am sceptical on that. I am still not sure I understand the 98 minus 70 divided by 4 logic. There are pieces of this that the industry can do a better job. There is no question, but it feels like there is a lot of input and a lot of work. We are participating in it at a very senior level. Korea?

Nic Nicandrou: Korea completed on 17th May. This is the sale of our life business in Korea. It was in our first quarter trading statement and the proceeds are safely sitting in our account in Hong Kong.

Barry Stowe: He had one other question that we missed, one other dimension on, are new competitors emerging in the VA space? Lots of fee-based product has been introduced. Almost everybody, all the usual suspects have introduced fee-based products, so everybody is making the same bet that that is the direction of the market. No hyper-competitive behaviour like we have seen in the past with someone increasing the more lucrative terms around the guarantees and lowering the prices. AIG is very much in the marketplace, Lincoln, Transamerica, PAC, all the usual suspects. No one becoming particularly vocal about wanting to write tons and tons and tons. We are all kind of moving in tandem.

Alan Devlin (Barclays): Back in your Capital Markets Day in November, you mentioned India was a difficult place to operate. One of your peers more recently changed his view on India, getting more optimistic. I wonder what your view on the Indian market is. Just more generally, obviously Asia has been a stellar performer for Prudential, but I wonder if Nic had any comments on any different strategies or emphasis on geographies or distribution and more products in Asia?

Mike Wells: To be clear, we are very pleased with what we have in India. It is very difficult that we have to be the market leader in India, just given the national champion competitive element there. It is one of our most advanced businesses technology-wise. We have a great partner. Their execution has been outstanding. It is a higher-volume, lower-margin business was our only public criticism of it. I think to a degree that is still true. You are seeing some material changes on product mix.

Nic Nicandrou: Yes, clearly the valuation that the JV is trading at is quite an impressive one, nearly 3.7 times EEV, which kind of values our stake at around £1.9 billion. We are pleased with that. ICICI Pru JV is doing phenomenally well. Again, in the saving space there is clearly a balance distribution which is good to see in terms of agency and bancassurance. They are looking to broaden that. I do not have a lot of details on that.

The other thing is, there are some tentative moves in terms of trying to make some difference in the health space, with some interesting products that have just been launched, but there we are competing against PNC that have structural advantages, both in terms of the tax breaks that they get and the ability to get some diversification with PNC-type products. In the market, the business is doing well, but it remains, in the context of PCA, one of the lower-margin businesses because of the low H&P content. It is clearly a tough act to follow, definitely; standing really on the shoulders of giants, Barry.

I have spent the last three weeks, but even before that, travelling around the region. It is early days; I have been in Singapore three times, the Hong Kong business twice, China twice. I have been to Malaysia. I have been to the Philippines, Vietnam, Indonesia and the rest to come, met the four major regulators, our two major partners, then spent five days with the top 160 agents across our business footprint. Everything that I have seen really reinforces what I believed and the positive view that I have both on the opportunity, and we talked a little about that earlier, but also our ability to capture it. That ability to capture it is driven by the capability set that we have across the region. A very strong performance culture and a healthy bias towards growth, absolute focus on product innovation and on increasing the productivity of our distribution. Really multiple programmes to digitise the front end of the business and automate the back end, and we can talk more about that in November.

The priorities really are not new. I worked with Mike and the rest of the GEC to establish the priorities in the role that I had previously, which included supporting Mike in strategy formulation. Really, the areas of focus are what Mike talked about back in March. It is about how do we enhance our core operations, be it in terms of product and distribution or segmentation of that, be it in terms of any additional services that we surround those products with and how do we demonstrate the benefit of staying in-country and across the region on the operations and the IT side.

It is about broadening the participation in Health and Protection, not only the protection, but the medical end. It is about building out Eastspring. We have not talked a lot about that, but there are huge opportunities on the asset management side and a lot more we can do, and it's about accelerating China. All of that, we want to make sure that it is enabled by an appropriate IT, appropriate technology, appropriate capabilities. I think we have a lot of good capabilities, but we can build those out further, and an operating model that is fit for purpose, as we move forward in ways of working.

That is the initial assessment, but really impressed by the focus on value delivery which is underpinned by a very robust in-force book on the one end and new business coming in and supplementing that. So many growth levers, and really, whether it is products, country, asset management in life, a lot of headroom to move forward from here. Again, we will get an opportunity to give you even more glimpses of that in November.

Mike Wells: With that, thank you very much for your time today. Hopefully, you got your questions answered. If not, we will be around for a few minutes after, and I appreciate the time and support. Thank you.

[END OF TRANSCRIPT]